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PROCUREMENT BUDGET

Defense Contract Provisions Affecting Congressional Controllability

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The Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives

The Honorable John C. Stennis
Chairman, Committee on Appropriations
United States Senate

In response to the House Appropriations Committee's and the Senate and House Conference Committee's reports on the fiscal year 1987 Defense Appropriations Act, we examined whether Department of Defense (DOD) contractual provisions may have the effect of limiting the Congress' control of DOD's procurement budget. The House Appropriations Committee was concerned that, in a constrained budget environment, some programs might be virtually exempt from budget reductions because of the nature of the firm fixed-price (FFP) contracts used. Major FFP contracts with options were of particular concern.

The House Appropriations Committee's report indicated a potential need for (1) an approval system for implementing congressional control over major FFP contracts, which would be similar to the congressional approval system currently in place for DOD's large multiyear contracts or (2) a system by which DOD could report to the Congress annually, along with the budget submission, on the controllability of the procurement budget. We examined these proposals and discussed them with DOD officials.

In October 1987, we briefed House Appropriations Committee staff on the preliminary results of our review. As requested, this report provides the final results of our work, which are summarized below and presented in more detail in the appendixes. Appendix I describes our objectives, scope, and methodology.

The results of our work do not indicate a need for congressional approval or reporting systems. Although we identified contract provisions which could reduce congressional controllability of the DOD procurement budget, we did not identify significant dollar amounts relating to these provisions. DOD and military service officials generally objected to the idea of approval or reporting systems, saying they would be burdensome and not cost effective.

We reviewed 14 major fixed-price contracts with options that have an anticipated total contract value of $20.4 billion. The Congress is not legally "locked-in" to approving funding for any of these contract options because the government has the right to not exercise the options. However, we found that congressional controllability of the DOD procurement budget may be reduced because the government financially "commits" itself in varying degrees when major FPP contracts with options contain provisions that (1) fund advance acquisition items related to options not yet exercised or (2) would affect costs, such as tooling costs, if options are not exercised. Four of the 14 contracts we reviewed had provided a total of $115.2 million in advance acquisition funding related to unexercised option quantities. Two of the 14 contracts contain other provisions affecting costs if options are not exercised, but we could not determine the total dollar amount for which the government may be liable. (See app. II.)

Variable quantity provisions, such as those used in the Army's Mobile Subscriber Equipment contract, may also affect congressional controllability. Seven of the fourteen contracts we reviewed included variable quantity provisions. These provisions permit adjustment in the quantities to be procured when options are exercised, and generally provide for adjustment in the prices to be paid for those quantities.

The Office of the Secretary of Defense reviewed a draft of this report and stated that it concurred with our findings and conclusions.

As arranged with House Appropriations Committee staff, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date of the report. At that time we will send copies of the report to the House and Senate Committees on Armed Services; the Secretaries of Defense, Army, Navy, and Air Force; and the Director, Office of Management and Budget. Copies will be sent to others upon request. If you have any questions, please call me on 275-4587.

Michael E. Motley
Associate Director

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ABBREVIATIONS

DOD	Department of Defense
FAR	Federal Acquisition Regulation
FFP	firm fixed-price
GAO	General Accounting Office
HCS/MRR	Helicopter Combat Search and Rescue Special Warfare Support/Medium Range Recovery
LANTIRN	Low Altitude Navigation and Targeting Infrared System for Night
MSE	Mobile Subscriber Equipment
OSD	Office of the Secretary of Defense
SAR	Selected Acquisition Report

INFORMATION ON THE CONTROLLABILITY OF DOD'S PROCUREMENT BUDGET

BACKGROUND

-- The House Appropriations Committee's report on the fiscal year 1987 DOD appropriations bill stated that the Committee was concerned about certain limitations on congressional controllability of DOD's procurement accounts. The Committee's report specifically addressed the budget request for one program, Mobile Subscriber Equipment (MSE), which was $0.9 billion, and represented about one-fourth of the total requested for the category "Army communications and electronics equipment" and about three quarters of the increase for that category. The Committee's concern was that

> ". . . in a very constrained budget year, a program of such substantial size and growth was virtually exempt from budget reductions because of the nature of the firm fixed-price contract . . . [used]".

MSE contract

-- The MSE system consists of tactical communications equipment, including transmission and switching devices, communications security, and system control equipment, vehicles, and generators.

-- The MSE contract is a FFP contract with six priced options totaling approximately $4.5 billion. The contract, awarded in December 1985, is for the procurement of (1) the basic hardware and initial spares, covering a period through fiscal year 1991 and (2) logistics support/spares for 15 years after the last MSE unit is fielded.

-- The MSE contract provides three different price ranges, depending on the quantities purchased by the government: A (low quantity), B (medium quantity), and C (high quantity). Because fiscal year 1987 MSE procurement was budgeted at the low end of the B band, any reduction by the Congress in the number of MSE units procured would have moved the pricing into the A band and significantly increased unit prices.

-- Army procurement officials responsible for the MSE contract told us the Army expects to request MSE quantities and procurement funding at the low end of the B band for the remaining contract options through fiscal year 1991.

OBJECTIVES, SCOPE, AND METHODOLOGY

-- The House Committee report on the fiscal year 1987 DOD appropriations bill requested that we provide a report

  -- assessing the degree to which multiyear contracts, FFP contracts, and similar types of commitments[1] have the effect of reducing discretionary control of procurement accounts during the budget year review;

  -- setting forth a proposed system by which DOD could report to the Congress annually along with the budget submission on the controllability of the procurement budget, including prior years, the budget year, and future years; and

  -- including a proposed approval system for implementing congressional control over major FFP contracts similar to that exercised over multiyear contracts.

-- The conference committee's report on the bill agreed to these objectives and requested that our report also discuss the costs and benefits of implementing such a system for controlling fixed-price contracts and include DOD comments on such a system.

-- The House Appropriations Committee subsequently indicated that its primary interest was congressional visibility and possible control over major FFP contracts with options. As a result, we agreed to

  -- try to determine if, besides MSE, other contracts with options existed which reduced the controllability of the procurement budget;

  -- explore the pros and cons of a congressional approval system; and

  -- attempt to determine the magnitude of "large" FFP contracts with priced options. We defined large as all major FFP

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[1]We interpreted this phrase to mean other fixed-price type contracts, such as those including economic price adjustment clauses or incentive provisions. (See p. 9 for a discussion of fixed-price type contracts.)

production[2] contracts with options for (1) Selected Acquisition Report (SAR) programs[3] or (2) programs for which funding of $100 million or more had been requested for either fiscal year 1987 or 1988.

-- To address our objectives, we did the following:

  -- Met with Office of the Secretary of Defense (OSD) and military service officials to obtain their views and other information.

  -- Collected data on DOD's recent and current use of multiyear contracts and fixed-price, including FFP, contracts with options. We did not verify data obtained from the DD-350 system, DOD's contract award data system, and some budgetary data obtained from OSD and the services.

  -- Performed work at OSD; Army, Navy, and Air Force Headquarters; Naval Air Systems Command; and Naval Sea Systems Command, all located at Washington, D.C. We also obtained limited contract information from Air Force Systems Command, Wright-Patterson Air Force Base, Dayton, Ohio; Army Missile Command, Huntsville, Alabama; and Army Communications-Electronics Command, Fort Monmouth, New Jersey.

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[2]We focused on production contracts since these are funded from DOD's procurement account. In contrast, development and maintenance contracts are generally funded from DOD's research, development, test, and evaluation account and operations and maintenance account, respectively. Three of the contracts we reviewed provide for both research, development, test, and evaluation and procurement funding. (See app. II.)

[3]A SAR program is a program that is (1) designated by the Secretary of Defense as a major defense acquisition program, (2) not a highly sensitive, classified program, and (3) estimated to require an eventual total expenditure for research, development, test, and evaluation of more than $200 million or an eventual total expenditure for procurement of more than $1 billion (dollars based on fiscal year 1980 constant dollars).

-- Reviewed 14 major fixed-price[4] contracts with options that obligated approximately $7.9 billion as of August 1987 and have anticipated total contract values of about $20.4 billion. Our objective in performing this work was to determine if contractual provisions were used which (1) may have the effect of reducing the controllability of the procurement budget or (2) in some manner, obligate the government to exercise contract options.

-- Selected for review high value fixed-price contracts with options, providing for the procurement of a mix of various types of systems, at the locations covered in the three military services. In addition, we selected the Air Force's F-16 ejection seat contract because we were told it contained price bands similar to those used in the MSE contract.

-- Conducted our review from March to October 1987 in accordance with generally accepted government auditing standards.

INFORMATION ON CONTRACTS AND OPTIONS

FFP and similar contract types may be described as follows:

-- A FFP contract provides for a price which is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. It provides maximum incentive for the contractor to control costs and perform effectively.

-- Other fixed-price type contracts permit adjustable prices. These include fixed-price with economic price adjustment and fixed-price incentive fee contracts.

-- Multiyear contracts generally

  -- Cover requirements for more than 1 year but not in excess of 5 years. Each program year is annually budgeted and funded.

  -- Obligate the government to procure products or services in future years or else incur specified termination or cancellation costs and, therefore, affect the overall controllability of out-year procurement budgets. In contrast, annual contracts with or without options do not involve similar legal obligation or liabilities.

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[4]Thirteen of these were FFP contracts and one was a fixed-price incentive fee contract. The Navy awarded 9 of the 14 contracts, the Air Force awarded 3, and the Army awarded 2 (including MSE). The services identified 33 programs using FFP contracts which met our selection criteria. (See app. II.)

-- Cancellation of a multiyear contract would occur if, at the completion of a fiscal year, the government did not continue the contract for a subsequent fiscal year due to lack of funding.

-- Termination would occur if the government decided to terminate the remaining portion of the contract for that year. The termination liability would include both termination charges for the year and cancellation charges for the remaining years.

Options

-- A contract option is a unilateral right in a contract by which, for a specified period of time, the government may elect to purchase additional supplies or services, as provided in the contract, or may elect to extend the term of the contract.

-- According to the Federal Acquisition Regulation (FAR), an option may be exercised only when

  -- funds are available,

  -- the option is for a valid government requirement, and

  -- it is the most advantageous method of fulfilling the government's requirement.

-- Because the government has the right not to exercise a contract option, the Congress is not legally "locked-in" to approving funding for any contract option.

EXTENT OF MULTIYEAR CONTRACTS AND LARGE FFP CONTRACTS WITH OPTIONS

-- We requested OSD officials to identify all multiyear contracts and current, large FFP production contracts with options. OSD officials explained that they could only identify budget dollars for the large multiyear contracts that are subject to the congressional approval process, because OSD does not have a system in place to track the other contracts we requested. This information is summarized in appendix III and shows the percentage of DOD's procurement budget represented by such multiyear contracts for the following fiscal years: (1982), 3.0 percent; (1983), 4.4 percent; (1984), 7.6 percent; (1985),

11.7 percent; (1986), 11.4 percent; (1987), 7.4 percent; (1988), 6.9 percent; and (1989), 6.1 percent.[5]

-- OSD officials also said (1) we would have to contact officials in each military service to obtain the information on contracts with options and (2) such information is not readily available, even at the service level, and would have to be developed manually.

-- Army, Navy, and Air Force budget and procurement officials confirmed that information on FFP contracts with options is not readily available, but agreed to provide the requested data to the extent possible. Based on the information provided, DOD's budget requests for large FFP contracts with options accounted for 12.8 percent and 11.5 percent of DOD's total procurement budget request in fiscal years 1987 and 1988, respectively. (Details are shown in app. IV.)

-- Approximately 18.9 percent and 17.2 percent of DOD's total procurement budget requests in fiscal years 1987 and 1988 are represented by (1) multiyear contracts subject to the congressional approval process and (2) the large FFP production contracts with options (after eliminating duplication caused by the Patriot and Stinger missiles, which are included in both categories).

-- We also accessed the DD-350 system to obtain fiscal years 1984-86 information on the dollars obligated and the number of contract actions for (1) all contracts, (2) all multiyear contracts, including those that do not require congressional approval, (3) contract actions obligating $1 million or more for FFP contracts with options,[6] and (4) contract actions obligating $1 million or more for other fixed-price contracts with options. (See app. V.)

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[5]The percentage figures for fiscal years 1988 and 1989 include estimated costs for multiyear contract candidates for which congressional approval was requested during our review.

[6]The DD-350 category for contract options also includes data on (1) incremental yearly buys under multiyear contracts and (2) amendments or modifications adding work within the scope of the contract. We excluded data on multiyear contracts (and present that separately), but could not identify and exclude the information relating to amendments or modifications from our contract options data.

REVIEW OF SELECTED MAJOR FIXED-PRICE CONTRACTS WITH OPTIONS

-- None of the contracts with options we reviewed legally obligated the government to exercise the options. However, congressional controllability of the DOD procurement budget may be reduced, because the government "commits" itself financially in varying degrees, when large fixed-price contracts with options include provisions that (1) fund advance acquisition items related to options not yet exercised or (2) would affect costs, such as tooling costs, if options are not exercised. (See below and app. II for more details.)

-- The extent of congressional controllability over DOD's procurement budget may also be affected by the existence or absence of variable quantity and pricing provisions in contracts, which permit quantity adjustments at the time contract options are exercised.

-- Four of the 14 contracts we reviewed, the Navy's SH-60B and Helicopter Combat Search and Rescue Special Warfare Support/Medium Range Recovery (HCS/MRR) helicopter contracts, the Air Force's Low Altitude Navigation and Targeting Infrared System for Night (LANTIRN) contract, and the Army's MSE contract, included provisions indicating that the government (1) intends to exercise contract options or (2) would compensate the contractor if any options are not fully funded. None of these provisions appear to obligate the government to exercise options or provide compensation if options are not exercised.

Advance acquisition (or long-lead) funding provisions

-- Four of the 14 contracts reviewed provided for the acquisition of long-lead time material related to unexercised option quantities. A total of $115.2 million in advance acquisition funding of this kind had been obligated for these four contracts. (See app. II for information on each of these contracts.)

-- Advance acquisition funding is a technique for ensuring the delivery of items that require substantially longer manufacturing or processing times than those of related system components. Advance funding is also used in multiyear contracts for the purchase of items in economic order quantities.

-- Congressional authorization and appropriation of advance acquisition funding, which relates to out-year budget requirements, is required.

-- Generally, for contracts with options, advance funding for items relating to unexercised option quantities represents "sunk costs" or a financial investment in the continuation of the programs. The extent of the government's commitment varies with (1) the amount of advance funds provided, (2) the types of items procured, and (3) the potential alternative use for these items in the event of non-exercise of an option, contract termination for convenience of the government, or program cancellation.

Other provisions affecting costs if options are not exercised

-- For some contracts, the government may be liable for costs to some agreed extent, whether options are exercised or not. One example is the Navy's T45 training system (aircraft and simulators) contract which entitles the contractor to recover actual tooling costs incurred, not to exceed $53.8 million. In the event of non-exercise of an option, contract termination for convenience of the government, or program cancellation, government payments to the contractor for tooling costs not to exceed about $25 million are to be accelerated to reflect the shortened life of the program.

-- Another contract we reviewed, the Army's multiyear contract with options for the Patriot missile, included a clause providing for the contractor to receive an "equitable adjustment" for some portion of its tooling investment, if the program is canceled or if an option is not exercised.

-- The effect of these or similar provisions on congressional controllability of DOD's procurement budget varies, depending on such factors as (1) the nature of the government's liability to a contractor in the event options are not exercised, (2) the potential amount of compensation involved, and (3) the value of any tooling or other assets that the government may receive.

Variable quantity provisions

-- Variable quantity provisions in contracts allow the government to adjust the quantities to be procured if options are exercised and may also provide for adjustment in the prices to be paid for those quantities.

-- We identified variable quantity provisions in 7 of the 14 contracts. Individual unit prices, or formulas for such prices, were provided in four of these contracts. A fifth contract, the Navy's F-404 engine contract, included a variable quantity provision, which states that a computer cost model will be used to calculate unit prices. Two other contracts, the Air Force's F-16 ejection seat contract and the Army's MSE contract, included variable price bands, in which prices are provided for ranges of quantities.

-- In a constrained budget environment, when variable quantity provisions are used which permit downward adjustment from DOD's requirement and budget request, without excessive unit price increases, the Congress and DOD have the flexibility to adjust program budgets and still exercise favorable contract options.

-- Aside from the MSE contract, five of the seven contracts reviewed which contained variable quantity provisions permitted downward adjustment in quantities, each affecting unit prices differently. (See app. II for more information on these provisions. Appendix VI shows an example from the Navy's SH-60F contract of a provision that permits downward adjustment.)

A CONGRESSIONAL APPROVAL SYSTEM

-- The House Appropriations Committee's report on the fiscal year 1987 DOD appropriations bill indicated that an approval system for implementing congressional control over major FFP contracts might be needed (similar to the system currently in place for DOD's large multiyear contracts).

-- Such a system could apply to initial contract awards with options and be limited to contracts exceeding some specific high dollar value threshold. Information could be required on the nature of the options, the reasons for their use, and any provisions that might affect congressional controllability of the procurement budget. (See the next section for additional details on this type of information.)

-- DOD and service officials strongly objected to implementation of an approval system and stated that such a system would

  -- be burdensome, increase procurement and administrative costs, and require additional staff or increase existing staff's work loads;

  -- reduce executive discretion and flexibility to make good business decisions;

-- create a possible disincentive for procurement personnel to use FFP contracts; and

-- delay the award of contracts. OSD and service officials said that contracting officers presently do not have sufficient time to properly award contracts and implementation of an approval system would worsen this situation.

-- The results of our work do not indicate a need for an approval system. Although we identified contract provisions which could reduce congressional controllability of the DOD procurement budget, we did not identify significant dollar amounts relating to these provisions.

A REPORTING SYSTEM

-- The House Committee report also indicated a potential need for a system by which DOD could report to the Congress annually along with the budget submission on the controllability of the procurement budget.

-- DOD and service officials

-- generally stated that developing a reporting or notification system in conjunction with budget submissions would be burdensome and not cost effective,

-- emphasized that (1) no automated or centralized budgetary data base exists for contracts with options and (2) costs would be incurred in developing such a system or manually preparing the information each year,

-- said that the Congress already receives considerable data on DOD contracts. (See app. VII for further information.)

-- While the results of our work do not indicate a need for a reporting system, the Committee report asked us to describe a proposed system, in which DOD could report to the Congress annually on the controllability of the procurement budget. Such a report could focus on (1) financial investments the government has made relating to unexercised option quantities, such as funding for advance acquisition items, (2) any other contractual provisions that would affect costs if options are not exercised, and (3) variable quantity and pricing agreements.

-- A centralized reporting system for contracts with options could include information on each major system contract for which procurement funds in excess of some high dollar value threshold are being requested. For each of these contracts, the report could be required to include the following information categorized by (1) military service (and separately "other DOD agencies") and (2) procurement budget category (such as aircraft, missiles, etc.):

   -- the contract number, the type of contract used, and the name of the system under contract;

   -- the approximate basic contract value, the anticipated value of each option, and the dollars obligated to date;

   -- a description of and the number of items to be procured under the basic contract and succeeding options; and

   -- the budget dollars for the prior fiscal year, the budget year, and each of the following 4 fiscal years, indicating which amounts are for existing or planned, multiyear, or annual contracts and contract options.

-- DOD could also be required to explain for each major system contract

   -- any provisions which may (1) restrict the Congress' ability to reduce proposed budget amounts or (2) provide compensation to a contractor in the event options are not exercised. This would include disclosing dollar amounts budgeted for advance acquisition which relate to unexercised option quantities or liabilities for costs incurred by contractors, if options are not exercised.

   -- whether any variable quantity and pricing provisions have been included. If so, how they would apply and how they relate to proposed budget amounts (and possible budget reductions).

APPENDIX II

INFORMATION ON CONTRACTS WITH OPTIONS WE REVIEWED

Contract number/ system	Amount obligated[a]	Approximate total contract value[b]	Advance acquisition funding provisions[c]	Other provisions affecting costs if options not exercised	Variable quantity provisions
	---------(dollars in millions)---------				
Navy					
1. N00019-85-C-0403 LAMPS SH-60B helicopter	$ 94.2	$ 146.2	$ 10.0	-	Variable prices provided for 6 to 24 units per year
2. N00019-85-C-0148 SH-60F helicopter	294.1[d]	1,046.5[d]	17.2	-	Variable prices provided for 18 to 30 units per year
3. N00019-84-C-0240 T45 training system	571.0[e]	1,908.0[e]	60.0	YES[f]	-
4. N00019-86-C-0085 HCS/MRR helicopter	154.4	509.2	-	-	Variable quantities may be procured each year with no changes in unit prices
5. N00019-85-C-0145 V-22 tilt-rotor aircraft[g]	817.0[h]	1,713.9[h]	-	-	-
6. N00024-86-C-2005 LHD ship	429.6	1,150.6	28.0	-	-
7. N00019-87-C-0045 F404-GE-400 engines	20.8	Contract being negotiated	-	-	Variable quantities may be procured each year with price changes based on computer cost model

Footnotes on p. 19

Contract number/ system	Amount obligated[a]	Approximate total contract value[b]	Advance acquisition funding provisions[c]	Other provisions affecting costs if options not exercised	Variable quantity provisions
	---------(dollars in millions)---------				
Navy					
8. N00024-85-C-7002 Phalanx	$ 225.7	$ 246.7	-	-	-
9. N00024-86-C-6246 MK65 Quickstrike mine	27.5	45.7	-	-	-
Air Force					
10. F33657-84-C-0004 LANTIRN	1,251.0	3,250.1	-	-	-
11. F33657-86-C-2109 F-16 ejection seats	34.6	67.4	-	-	Unit prices provided for four bands: (1) 120-228 (2) > 228-312 (3) > 312-420 (4) > 420-540
12. F33657-84-C-2128 F108-CF-100 engines (KC-135R Acft.)	1,637.4	2,180.6	-	-	10% downward & 20% upward variations provided with no change in unit prices for engines
Army					
13. DAAH01-87-C-A025 Patriot[i]	1,042.0	3,644.8	-	YES[j]	-
14. DAAB07-86-D-K022 MSE	1,268.7	4,500.0	-	-	MSE sets priced in in three bands: A (low quantity) B (med. quantity) C (high quantity)
Total	$7,868.0	$20,409.7[k]	$115.2		

Footnotes on p. 19

Footnotes

[a]As of August 1987.

[b]These amounts include the anticipated value of contract options.

[c]Dollars obligated by the government for options not exercised as of August 1987.

[d]Includes research, development, test, and evaluation funding of $136.4 million.

[e]Includes research, development, test, and evaluation funding of $511.0 million.

[f]This contract provides that (1) the contractor may recover actual tooling costs incurred not to exceed $53.8 million and (2) if an option is not exercised, payments not to exceed about $25 million will be accelerated to reflect the shortened life of the program.

[g]This contract is a fixed-price incentive fee contract. Each of the other 13 contracts are FFP contracts.

[h]These are research, development, test, and evaluation funds. This contract includes options for (1) initial production of 12 units at a cost not to exceed $900 million and (2) production tooling at a cost not to exceed $300 million. Navy officials have told us, however, that the Navy does not intend to exercise these options and, instead, plans to award a separate contract for these production requirements.

[i]This is a multiyear contract with options.

[j]According to the contract, if options are not exercised, the contractor will receive an equitable adjustment for some portion of its tooling costs.

[k]This total does not include the value of the F404-GE-400 engines contract, which is still being negotiated.

APPENDIX III

BUDGET DOLLARS FOR DOD MULTIYEAR CONTRACTS SUBJECT TO THE CONGRESSIONAL APPROVAL PROCESS AND RELATED PROGRAMS FOR FISCAL YEARS 1982-1993[a]

	82	83	84	85	86	87	88	89	90	91	92	93	Total
						(millions of dollars)							
FY 1982													
MYC[b]	$ 1,609	$ 1,542	$ 1,487	$ 1,239	$ 468	$ 378	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,723
Related programs	4,996	5,900	5,389	4,039	387	232	-	-	-	-	-	-	21,143
FY 1983													
MYC	321	1,734	1,860	1,578	876	298	-	-	-	-	-	-	5,828
Related programs	1,165	3,425	3,809	4,014	983	553	-	-	-	-	-	-	13,949
FY 1984													
MYC	-	248	3,105	6,350	4,643	115	-	-	-	-	-	-	14,461
Related programs	-	4,034	6,568	8,111	5,318	757	-	-	-	-	-	-	24,788
FY 1985													
MYC	-	-	82	1,805	2,394	1,977	1,679	1,146	-	-	-	-	9,083
Related programs	-	-	112	2,068	5,121	4,997	3,770	3,919	-	-	-	-	19,987
FY 1986													
MYC	-	-	-	325	1,766	1,844	1,585	1,169	-	-	-	-	6,689
Related programs	-	-	-	1,877	3,248	3,220	3,096	1,456	-	-	-	-	12,897
FY 1987													
MYC	-	-	-	-	430	1,705	2,029	1,882	994	701	-	-	7,741
Related programs	-	-	-	-	692	2,282	2,963	2,716	2,166	1,447	-	-	12,266
FY 1988													
MYC[c]	-	-	-	-	-	-	485	639	486	629	520	-	2,759
Related programs	-	-	-	-	-	-	642	759	651	778	645	-	3,515
FY 1989													
MYC[c]	-	-	-	-	-	-	-	910	2,014	1,657	1,335	613	6,529
Related programs	-	-	-	-	-	-	-	1,199	4,079	3,589	3,159	2,017	14,003
MYC budget dollars	1,930	3,524	6,534	11,297	10,577	6,317	5,778	5,746	3,494	2,987	1,855	613	60,652
Total program costs	6,161	13,359	16,078	20,109	15,749	12,041	10,471	10,049	6,896	5,814	3,804	2,017	122,548
Total DOD procurement budget dollars[d]	$64,462	$80,355	$86,161	$96,842	$92,906	$85,174	$83,974	$94,624	$114,455	$123,794	$133,306	$ -[e]	$1,155,653
MYC budget dollars as % of procurement	3.0	4.4	7.6	11.7	11.4	7.4	6.9	6.1	3.1	2.4	1.4	-[e]	5.7

[a]Information obtained from OSD, as of August 1987.

[b]Multiyear contract.

[c]Multiyear contract candidates for which congressional approval was requested during our review.

[d]As reported in the Secretary of Defense's Annual Report to the Congress on the Fiscal Years 1988-1992 Defense Programs, and provided by OSD.

[e]This information is not available.

BUDGET REQUESTS FOR LARGE FFP CONTRACTS WITH OPTIONS[a]
(excluding multiyear contracts)

	Budget request ($ in millions)	
Navy	FY 1987	FY 1988
E-6A aircraft	$ 111.1	$ 93.5
F-14A aircraft	547.1	242.6
SH-60B aircraft (LAMPS)	54.1	36.9
SH-60F aircraft	157.5	326.7
LHD ship	40.4	740.7
High Speed Anti-Radiation Missile	254.3	205.0
Phalanx weapon system	161.2	115.5
Sparrow guidance control	269.9	0.0
T45 training system	55.2	358.2
HCS/MRR helicopter[b]	38.0	42.5
V-22 tilt-rotor aircraft[c]	422.7	465.7
F-18 engine (F-404)	315.4	264.3
Total	2,426.9	2,891.6
Air Force		
Advanced Medium Range Air-to-Air Missile	582.4	837.0
C-5B aircraft	1,947.0	0.0
LANTIRN (F-15/F-16 pods)	730.7	664.9
Joint Tactical Communication Program[d]	234.1	176.8
KC-135R (airframe & engine)	711.6	508.7
Air Defense Aircraft	164.4	51.6
Alternate Fighter Engine	1,238.4	1,240.3
Combined Effects Munition	352.0	282.0
Common Strategic Rotary Launcher	55.0	59.0
Joint Tactical Information Distribution System	42.0	58.0
Total	$ 6,057.6	$ 3,878.3

Footnotes on p. 22

Army	Budget request ($ in millions) FY 1987	FY 1988
MSE	$ 903.7	$ 1,019.8
Copperhead projectile	17.9	100.6
Patriot missile[e]	917.0	851.4
Stinger missile[e]	261.4	154.2
Joint Tactical Communication Program[d]	153.0	195.9
Single Channel Ground and Airborne Radio System	0.0	23.5
Forward Area Air Defense System	0.0	76.3
Night vision goggles	63.2	138.1
Special Operations Forces aircraft	0.0	121.8
Army Helicopter Improvement Program	124.8	48.1
Hellfire missile	0.0	168.4
Total	2,441.0	2,898.1
Total	10,925.5	9,668.0
Total DOD procurement budget request	$85,174.0	$83,974.0
Percent	12.8	11.5

[a]All contracts were identified by the military services and are for SAR systems or had requested funding greater than $100 million in fiscal years 1987 or 1988.

[b]Excludes Coast Guard funding for this contract.

[c]This contract is a fixed-price incentive fee contract.

[d]Excludes MSE budget request, which is separately identified.

[e]This is a multiyear contract with options.

INFORMATION OBTAINED FROM DOD'S DD-350 SYSTEM[a]

	Fiscal years					
	1984		1985		1986	
	Dollars obligated	Number of actions	Dollars obligated	Number of actions	Dollars obligated	Number of actions
	(dollars in millions)					
All DOD contracts	$133,571.3	234,347	$150,674.3	249,111	$145,742.1	257,158
All DOD multiyear contracts[b]	10,122.4	2,234	11,265.2	2,165	8,632.6	1,811
Percent of all DOD contracts	7.6	1.0	7.5	0.9	5.9	0.7
All DOD contract actions obligating $1 million or more for FFP contracts with options[c]	3,237.4	580	5,669.7	814	9,021.0	983
Percent of all DOD contracts	2.4	0.2	3.8	0.3	6.2	0.4
All DOD contract actions obligating $1 million or more for other fixed-price contracts with options[c] (excludes FFP contract actions shown above)	8,073.9	220	8,908.4	244	10,003.2	243
Percent of all DOD contracts	6.0	0.1	5.9	0.1	6.9	0.1

[a]DOD procuring activities are required to report contract actions over $25,000 on DD Form 350 for input into the DD-350 system and the government-wide Federal Procurement Data System.

[b]During fiscal years 1984 through 1986, 31.8 percent, 30.4 percent, and 41.0 percent of DOD's multiyear contract obligations were based on FFP contracts. All multiyear contracts are required by FAR to be fixed-price type contracts.

[c]This also includes amendments and modifications for additional work within the scope of existing contracts, which we could not separately identify and exclude from the DD-350 reporting category covering contract options.

EXAMPLE OF VARIABLE QUANTITY PROVISION

The Navy's SH-60F helicopter contract includes the following clause and price schedule, and shows the potential usefulness of a variable quantity provision. Although the Navy's operational or base requirements are currently 21, 24, and 24 for contract lots 3, 4, and 5, respectively, this provision permits the Navy to exercise options for increased or decreased quantities if it is determined to be in the government's interest. Without this variable quantity clause, if the Navy or the Congress adjusted the desired quantities, or reduced the budget for the SH-60F line item, the government would have to negotiate a new contract agreement.

> "F. Maximum Firm Fixed Prices and Adjustments Thereto Subject to paragraph C hereof, 'Limitations on Option Exercise', the contractor grants to the Government the right to elect to exercise its options for each line item listed below at the Maximum Firm Fixed Price shown below, subject to negotiation as provided for in paragraph K hereof . . . those Maximum Firm Fixed Prices are subject to variation if the Government elects to exercise its option for a quantity other than the Base Quantity, as is provided for in paragraph E hereof . . .
>
> "In the process of establishing Firm Fixed Prices for each Lot, the prices of individual line items may vary up or down . . ."

Variable Line Item Pricing

Item 3001 (lot 3)

Quantity	Unit price	Total	Percent of base quantity price
18	$10,008,305.43	$180,149,497.82	87.58
19	9,929,755.62	188,665,356.70	91.72
20	9,859,060.78	197,181,215.59	95.86
21	9,795,098.78	205,697,074.47	100.00
22	9,736,951.52	214,212,933.35	104.14
23	9,674,917.18	222,523,095.16	108.18
24	9,635,193.80	231,244,651.12	112.42

Item 4001 (lot 4)

Quantity	Unit price	Total	Percent of base quantity price
18	$ 9,902,951.34	$178,253,124.07	76.82
19	10,107,173.67	192,036,299.76	82.76
20	9,816,451.98	196,329,039.67	84.61
21	9,774,408.55	205,262,579.47	88.46
22	9,736,187.24	214,196,119.28	92.31
23	9,700,280.66	223,106,455.08	96.15
24	9,668,333.12	232,039,994.08	100.00
25	9,638,941.39	240,973,534.68	103.85
26	9,610,918.10	249,883,870.49	107.69
27	9,585,830.01	258,817,410.29	111.54
28	9,562,533.93	267,750,950.09	115.39
29	9,540,844.48	276,684,489.90	119.24
30	9,519,827.52	285,594,825.70	123.08

Item 5001 (lot 5)

Quantity	Unit price	Total	Percent of base quantity price
18	$10,337,846.94	$186,081,244.89	76.77
19	10,287,455.76	195,461,659.35	80.64
20	10,242,103.69	204,842,073.80	84.51
21	10,201,070.87	214,222,488.26	88.38
22	10,164,870.07	223,627,141.51	92.26
23	10,130,763.30	233,007,555.97	96.13
24	10,099,498.77	242,387,970.42	100.00
25	10,070,735.40	251,768,384.88	103.87
26	10,044,184.59	261,148,799.33	107.74
27	10,020,498.24	270,553,452.58	111.62
28	9,997,638.11	279,933,867.04	115.49
29	9,976,354.53	289,314,281.49	119.36
30	9,956,489.87	298,694,695.95	123.23

INFORMATION CURRENTLY PROVIDED OR AVAILABLE TO CONGRESS ON DOD CONTRACTS

-- Information on awarded and proposed contracts may be obtained from each of these documents.

  -- SAR.

  -- Congressional Data Backup Book, comprised of P-documents, including P-1, P-22, and other budget submissions to support the budget.

  -- Congressional Data Sheets comprised of contract, schedule, and budgetary data for weapon systems.

  -- Contract Award Report, issued 30 days before contract award.

  -- Justification of Estimates for Proposed Multiyear Procurements.

  -- Notification of Contract Awards greater than $3 million, immediately after contract award.

  -- Conference Appeal Reports showing the impact of potential budget cuts on individual systems.

  -- DD-350 Contract Data System (for awards over $25,000).

-- None of these sources, however, provides

  -- centralized information on major FFP contracts with options and how they may influence the controllability of the procurement budget or

  -- specific information on (1) funds obligated for unexercised option quantities or (2) the use of variable quantity clauses and how they relate to both proposed budget amounts and possible budget reductions.

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